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ORIGINAL

June 12, 1997

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
Washington, DC 20554

RECEIVED
JUN 12 1997
Federal Communications Commission
Office of Secretary

Re: Ex Parte - CC Docket No. 95-116 - Local Number Portability

Dear Mr. Caton:

This is to advise that Duane Johnson of GTE Telephone Operations and I met today with Pat Donovan, Neil Fried, Len Smith and Lloyd Collier of the Competitive Pricing Division to discuss cost recovery for implementation of local number portability. A copy of the discussion paper is attached.

Two copies of this notice are filed in accordance with Section 1.1206(a)(1) of the Commission's Rules.

Sincerely,

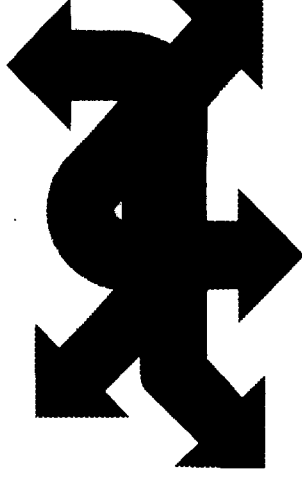
F. G. Maxson
Director - Regulatory Affairs

C: Pat Donovan
Neil Fried
Len Smith
Lloyd Collier
ITS

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Local Number Portability:

Cost Recovery Issues



GTE Corporation
June 1997

▼ ***Burden must be competitively neutral*** **GTE**

- ☐ Section 251(e)(2) of the Act states:
- ☐ “COSTS- The cost of establishing telecommunications numbering administration arrangements and number portability shall be borne by all telecommunications carriers on a competitively neutral basis as determined by the Commission.”
- ☐ Unequal cost burdens are clearly not competitively neutral; Act requires “all telecommunications carriers” to bear cost burdens.

▼ ***Carriers' costs will vary substantially***

- ☐ Incumbent networks will be much more expensive to upgrade than networks of new competitors.
- ☐ Incumbent networks that serve rural areas (i.e., fewer access lines per central office) will be more expensive per line than metropolitan serving areas.
- ☐ Type 2 costs per access line are not essentially equivalent among Tier 1 LECs.

▼ ***Pooling will eliminate inequities***



- ☐ Similar to the policy underlying the Universal Service Fund, a larger base upon which costs are pooled will result in smaller variations of allocated costs.
- ☐ A nationwide pool will result in a uniform cost recovery per line; regional pools will have less variation than state pools.
- ☐ Requiring all telecommunications providers to be pool members is the most competitively neutral solution.
- ☐ State commissions can monitor estimated and actual costs of implementation for all carriers

▼ ***Direct costs must be recovered***



- ❑ All costs directly associated with the implementation of number portability must be recoverable.
 - ✓ ILECs may have offices that, except for LNP, would not require upgrading or conversion.
 - ✓ Such upgrade or conversion costs should be considered Type 2, and not Type 3, costs.
 - ✓ ILECs will be discriminated against if these network costs are not considered as direct costs of LNP.

- ❑ Offices must be eligible for waivers from the LNP requirement if FCC rules preclude cost recovery.

▼ ***LNP beneficiaries must share costs***



- ☐ Under the N-1 concept, IXCs could either “dip” a call to route it to the carrier serving the ported number or send it “undipped” to the LEC that formerly had the whole NPA NXX and let the LEC “dip” the call.
- ☐ LECs should be able to apply a separate charge for “undipped” traffic routed to them to cover costs of processing the call for completion, even though the customer is no longer theirs.

▼ ***LNP beneficiaries must share costs (cont.)*** **GTE**

- ❑ IXC's should bear an appropriate share of the implementation costs of LNP either by developing their own systems to “dip” calls or by paying for that functionality in the PSTN.
 - ✓ LECs will be affected by whether IXC's build or buy “dipping” capacity.
 - ✓ LECs will be affected when an IXC “dipping” system fails and may have to examine whether to develop “firewalls” to ensure network reliability or to charge IXC's for developing standby “dipping” capacity to handle overloads.

▼ ***What are the cost drivers?***



- ❑ Type 1 (NPAC) costs are to be allocated uniformly.
- ❑ Type 2 (Direct LNP) costs have two major components:
 - ✓ Network switching costs are driven by the number of central office switches in the network (or in the MSAs) where LNP is implemented. Line size per switch is not a significant factor.
 - ✓ SS7 network costs (including STP, SCP, and SMS) are driven by the number of LNP queries and the number of switches.
- ❑ Support systems costs (for rating, billing, and intercarrier settlements) are largely fixed.

▼ ***What are the CLECs' LNP costs?***



- ❑ Large CLECs will have substantially lower LNP implementation costs than the RBOCs and GTE.
 - ✓ CLECs are concentrating on large business customers in urban centers with a highly concentrated network
("It's logical that bees follow honey and banks are robbed because that's where the money is, and our focus will be on concentrated markets in major cities with concentrations of business customers." Robert Allen, AT&T Chairman)
 - ✓ CLECs are deploying between 1 and 3 very large switches per MSA.

▼ ***What are the CLECs' LNP costs? (cont.)***



- ☐ Large CLECs average 2 switches in each of 100 MSAs for a total of 200.
- ☐ CLECs claim the ability to capture a market share of 9 million lines in the top 100 MSAs (roughly equal to GTE's current market share).
- ☐ CLECs will average 45K lines/switch in the top 100 MSAs ($9,000,000 / 200 = 45,000$ lines per switch).

▼ ***What are GTE's Type 2 LNP costs?***



Host/Remote Clusters	Number of Clusters in Top 100 MSAs	Average Cost per Line*
0 to 4,999	62	\$81
5,000 to 9,999	95	\$48
10,000 to 14,999	80	\$29
15,000 to 19,999	49	\$22
20,000 to 29,999	91	\$17
30,000 to 39,999	52	\$10
40,000 and larger	54	\$9
Total and Weighted Avg.	483	\$32

*One-time costs for CO switching only

▼ *How does GTE compare with others?*



- ❑ GTE has far lower density than the average RBOC within the top 100 MSAs:

	Total Switches	Total MSAs	Switches/ MSA	Lines/ Switch*
GTE	843	58	15	10,000
RBOC	499	14	36	25,000

(*Represent switch clusters for GTE and reported switches for RBOCs)

- ❑ GTE has higher Type 2 switching costs per line*:

GTE - \$32 RBOC - \$20 CLEC - \$9

(*Assumes similar pricing from switch vendors for all parties)

▼ ***GTE's recommendation***



- ❑ GTE recommends a LNP cost recovery mechanism that:
 - ✓ Includes all users of the network in a national pool
 - ✓ Distributes costs uniformly among carriers (per MOU)
 - ✓ Requires each carrier to specify the recovery amount on its bill

- ❑ This recommendation is the only competitively neutral solution that is in keeping with the Act.